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INTEREST RATE POLICY

Name of Document	**Mahindra & Mahindra Financial Services Limited Interest Rate Policy**
Version	4.0
State whether Policy / Code / Manual	Policy and Procedures
Group Level / Sector Level (Specify)	Mahindra & Mahindra Financial Services Limited Level
Issuing Authority	Board of Directors on November 2, 2022
Owner(s) of the Document	Mr. Raul Rebello (Chief Operating Officer – Core Business)
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Version History	Version 1: Initial version dated November 2, 2022 Version 2 dated February 3, 2023: **To incorporate** i. Average Annualised Interest Rate charged to customer on monthly basis for each business segment instead of Minimum annualized interest Rate at product level ii. Update the approval metrics and adding exceptions to the policy Version 3 dated January 30, 2024: **To incorporate** iii. Am~~m~~endment to the head “Business Segment(s)” whereby modifying the Business Segments as well as Authorization Matrix. Version 4 dated January 28, 2025: **To incorporate** Change in the annualized rate of interests .

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INTEREST RATE POLICY

I. PREAMBLE

As per the Master Direction – Reserve Bank of India (Non-Banking Financial Company– Scale Based Regulation) Directions, 2023, the Board of each Non-Banking Financial Company ("**NBFC**") shall adopt an Interest rate model that is applicable for the Company, taking into account relevant factors such as cost of funds, margin and risk premium, and determine the rate of interest to be charged for loans and advances. Further, the directions state that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters to them. The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers.
Keeping in view the RBI Guidelines as cited above, the following internal guiding principles and interest rate model ("**Policy**") is placed before Board of Directors of Mahindra & Mahindra Financial Services Ltd ("**MMFSL**" or "**the company**") for approval. This Policy should always be read in conjunction with RBI guidelines, directives, circulars, and instructions.

This Policy will be effective February 3, 2023

II. OBJECTIVE

The objective of this Policy is to provide a framework, which will enable the Company to outline the guiding principles to arrive at the interest rates to be used for different types of customer / product segments / geographies and to decide on the principles and approach of charging spreads to arrive at final rates charged to customers.

III. GOVERNANCE STRUCTURE

The Company shall have the following governance structure for the approval and implementation of this policy.

- **Board of Directors**

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- Approval of this Policy
- Annual review of average annualised interest rate range charged to customer
- Delegate certain operational aspects of this Policy to ALCO / ALMCO, as it may deem fit.

- **Asset Liability Committee of the Board ("ALCO")**
  - Periodic review (Annual or in between 12 calendar months, if required) of changes required to this Policy and recommending any modifications to the Board.
  - Review of average annualized interest rate range charged by business verticals on a quarterly basis

The ALCO may ensure the above compliances through the Asset Liability Management Committee ("ALMCO") of the company

- **Asset Liability Management Committee ("ALMCO")**
  - Ensuring implementation of this Policy by all the business segments and reporting to the ALCO in case of any deviation.
  - Approval of interest rate model applicable for any new business segment; approval of changes/ amendments/ modifications in the existing business segment(s).
  - Review / Ratification of deviations (if any) to the interest rate model
  - Review average annualised interest rates charged by business segments on a monthly basis
  - Put up for approval to the ALCO any changes if required in the Policy

- **Business Segment(s)**
  - All business segments should develop their respective pricing framework for their segment viz, Vehicles, SME business, Leasing and Personal Loans using the Interest Rate Model as defined under Clause IV below and decide the spreads to arrive at the average annualised interest rates for the month to be charged to customers.
    - The above framework shall be published at the beginning of the year, based on budgets for each segment.
    - The Interest rate model to be updated every month basis Fund Transfer Pricing framework (FTP) provided by Treasury.

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        - The other elements of Interest rate framework such as opex, credit cost and leverage etc may also get updated/modified for H2 of a relevant year basis the actuals
    - The above framework shall be jointly approved by respective segment head, COO and CFO
    - Each business segment should provide estimation of tenor-wise disbursements for 3 months on a rolling basis by the 25th of the previous month in order to enable Treasury to finalise the FTP for the month. Business segments shall also keep Treasury updated on various market benchmarks being used for floating rate lending.
    - Any changes/deviation to the framework at each business segment to be offered below the average annualized lending rate would need to be approved by any two of the following:
        - Managing Director
        - Executive Director
        - Chief Financial Officer
        - Chief Business Officer
        - Chief Operating Officer of the respective business
        - Head of Accounts, Treasury & Corporate Affairs

- **Treasury Department**
    - Release of the Fund Transfer Pricing framework (FTP) for various business segments by the end of previous month. During the month, if due to any macro event, the outlook on interest rates changes drastically necessitating immediate change, then Treasury may do a mid-month change to the FTP released earlier.

- **Planning and Budgeting Department**
    - Planning and budgeting department shall share information on other aspects of the interest rate model to business segments.

IV. INTEREST RATE MODEL

MMFSL being a diversified NBFC lends money through various products to cater to needs of different category of customers. While most of the loans are Fixed rate in nature, floating rate loans are also provided to certain customer profile(s). The interest rate model lays down the average interest rate for the month to be charged to customers across each business segment.

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Interest rate Model

The average annualised Interest rate for month to be calculated for each business segment, is calculated as an aggregation of the following cost factors:

Sr. Ref.	Particulars	%
a.	Cost of Funds as per the FTP Framework	xx%
b.	Leverage Impact (D/E ratio)	xx%
	Effective Cost of Fund … (A)	**xx%**
c.	Budgeted Opex Cost … (B)	xx%
d.	Expected Credit Costs … (C)	xx%
e.	Expected return on Assets … (D)	xx%
	Average Annualised Interest Rate to be charged (sum of A to D)	**xx%**

The cost factors as mentioned above are described below:

a. Cost of Funds as per the Fund Transfer Pricing (FTP) Framework

- The FTP framework shared by the MMFSL treasury team is designed considering the tenor wise projected disbursements for the next 3 months as provided by the business segment.
- FTP framework (as mentioned below) provides the business segment wise and tenor wise cost of funds for the month post adjusting for the relevant costs:

Fund Transfer Pricing Framework for the month of xxx	
Particulars	**Cost (%)***
Weighted Average Cost of Funds	xx%
Negative Carry on Liquidity Buffer	xx%
Statutory Costs	xx%
ALM Costs (incl impact of rate resets on floating rate liabilities)	xx%
Ratings, Compliance & other Sourcing Overheads	xx%
Cost of Funds as per FTP Framework ***(sum of all the above)***	**xx%**

** to be provided for different business segment across different tenors*

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- FTP for floating rate products is also calculated basis the spread over benchmarks using the above framework. An illustrative list of such benchmarks is as under:
  - RBI Repo Rate
  - 3-month T Bill rate
  - SBI 3-month MCLR
  - SBI 1-year MCLR

This list may get expanded from time to time based on practices followed by other market participants.

b. Leverage Impact

- The leverage (Debt/equity ratio) of the immediately preceding quarter as last disclosed in the public domain is adjusted from the cost of funds as per the FTP framework to arrive at the effective cost of Funds.

c. Opex Costs

- It includes the expected opex costs including employee expenses, branch related fixed and variable costs, operations cost, manpower expenses etc. based on the latest budget estimates (updated for revisions, if any).

d. Expected Credit Costs

- It includes the expected credit costs based on the latest budget estimates (updated for revisions, if any).

e. Expected Return on Assets (ROA)

- The Expected Return on Assets (ROA) is the minimum return expected by the company on its assets, on pre-tax basis.
- For the interest rate model, the expected ROA is considered to be the same as the latest budget (duly updated for revisions, if any).

V. CREDIT RISK PREMIUM & GRADATION OF RISK

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Business segment to add credit risk premium on the average lending rate arrived as per the Interest rate Model above.

The rate of interest for the same segment and tenor availed during same period by different customers is not standardized as it could vary for different customers depending upon the risk gradation of the customer based on which the credit risk premium is computed on a case-to-case basis. The factors affecting the calculation of Credit Risk Premium are mentioned below:

- Credit and default risk in the related business segment
- Historical performance of similar homogeneous clients
- Profile and Repayment track record of the borrower
- Industry segment
- Nature and value of collateral security
- Secured Vs unsecured loan
- Subvention available
- Ticket size of loan
- Bureau Score
- Tenure of Loan
- Location delinquency and collection performance
- Customer Indebtedness (other existing loans)

The interest would be charged on monthly/quarterly/half yearly rests or on maturity, depending on product features and customer preferences. However, the customer would be provided an annualised rate of interest in the sanction/ offer letter.

VI. OTHER CHARGES

- Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, rescheduling charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account, valuation & repossession charges (in the event of repossession of vehicles), field collection/ visit charges etc., would be levied by the company wherever considered necessary. A mention of such charges will be included in the loan agreement/sanction letter to be executed with the customer.

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- Besides the above charges, stamp duty, service tax, GST and other cess would be collected at applicable rates from time to time.

Any revision in these charges would be from prospective effect with prior approval of Vice Chairman & Managing Director or Chief Operating Officer of the respective business

VII. COMMUNICATION FRAMEWORK

- Annualised Interest rates would be intimated to the customers at the time of sanction/ availing of the loan.
- Interest Rate Policy would be uploaded on the website of the company and any change in the benchmark rates and charges for existing customers would be uploaded on the website of the Company. Current interest rate policy along with approach to gradation of risk is attached as Annexure 1.

VIII. EXEMPTIONS FROM THE APPLICATION OF THIS POLICY

The following product lines shall be exempted from the application of this policy:

a) Bill Discounting business under SME business, since Bill Discounting (BD) is a very short-term product with max usance of not more than 180 days and average usance of less than 90 days
b) Employee / Staff loans, as these are covered by HR policies
c) Loans against Fixed Deposit business, if any, as per RBI Guidelines.

IX. REVIEW OF POLICY

The Policy shall be reviewed once a year or in between if required due to changes required in the model.

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Annexure 1: Current Interest Rate Policy as Published on the Website of the Company

Preamble:

The Reserve Bank of India vide Chapter VII of Master Direction – Reserve Bank of India (Non-Banking Financial Company– Scale Based Regulation) Directions, 2023 and other applicable regulations have directed all NBFCs to:

- Communicate the annualised rate of interest to the borrower along with the approach for gradation of risk and rationale for charging different rates of interest to different categories of borrowers.
- Make available the rates of interest and the approach for gradation of risks on the website of the companies.

Rate of interest:

The Company intimates the borrower, the loan amount and rate of interest at the time of sanction of the loan along with the tenure and amount of the monthly instalment.

Approach for gradation of risk:
The average rate of interest is arrived at based on the weighted average cost of funds, administrative costs, risk premium and profit margin. The decision to give a loan and the interest rate applicable to each loan account is assessed on a case to case basis, based on multiple parameters such as the type of asset being financed, borrower profile and repayment capacity, borrower's other financial commitments, past repayment track record if any, the security for the loan as represented by the underlying assets, loan to value ratio, mode of payment, tenure of the loan, geography (location) of the borrower, end use of the asset etc. Such information is collated based on borrower inputs and field inspection by the company officials.

Interest Rate Policy:
The annualised rate of interest* generally charged to our customers shall be as below:

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Product Segment	*Rate Range*
New Assets (except 3 wheelers)	*8% - 25%*
Pre-Owned Assets, 3 wheelers	*8% - 25%*
Personal/ Consumer loans	*8% - 25%*
SME/ Working Capital financing (except unsecured loan)	*7% - 20%*
SME/ Working Capital financing (unsecured loan)	*8% - 25%*
Partnership business	*8% - 25%*
Leasing (Retail and corporate)	*7% - 20%*

*Annualised rate of interest rate does not include processing charges, subvention received from dealer or any such income in relation to said loan.

^ Interest rate for loan given towards Value added services (VAS) such as insurance product (premium) under product segment - personal/consumer loans can be below approved range up to 0%.

The tenure for Asset financing is usually between 1 year to 7 years (except LAP which is up to 15 years), while personal/working capital loans could have a lower tenure as well. There may be special schemes/rates offered by the Company from time to time/exception basis at different terms with the approval of management. The rates of interest are subject to change as the situation warrants and are subject to the discretion of the management on a case-to-case basis.